

VZCZCXRO1970  
RR RUEHRG  
DE RUEHRI #0135 1571157  
ZNR UUUUU ZZH  
R 051157Z JUN 08  
FM AMCONSUL RIO DE JANEIRO  
TO RUEHC/SECSTATE WASHDC 4484  
INFO RUEHBR/AMEMBASSY BRASILIA 0825  
RUEHSO/AMCONSUL SAO PAULO 5147  
RUEHRG/AMCONSUL RECIFE 3424  
RUCPDO/USDOC WASHDC  
RHEBAAA/USDOE WASHDC

UNCLAS RIO DE JANEIRO 000135

SIPDIS

STATE FOR WHA/BSC, WHA/EPSC, EB/ESC  
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D  
USDOE FOR CAROLYN GAY AND RHEA DAVIS

E.O. 12958: N/A

TAGS: [ENRG](#) [EPET](#) [EIND](#) [EINV](#) [BR](#)

SUBJECT: Petrobras Delays Some Subsalt Tests Due to Equipment Shortage

REF: A) RIO DE JANEIRO 91, B) RIO DE JANEIRO 35, C) 07 SAO PAULO 0953

¶1. Summary. A shortage of drilling rigs and looming relinquishment deadlines have made Brazilian oil company Petrobras delay tests on potentially huge subsalt finds like Carioca and move the rigs to other blocks. Petrobras CEO Sergio Gabrielli announced in late May that production evaluation tests would have to wait and expected no additional information on the Carioca reserve any time soon. Meanwhile, Petrobras is launching a major program to contract the construction of deep sea drilling equipment in anticipation of further exploration and production of subsalt areas. End Summary.

¶2. In late May, Petrobras CEO Sergio Gabrielli announced that the company had ceased doing tests on potentially huge subsalt finds such as the Carioca field in the Santos Basin (Ref A) in order to fulfill other exploration requirements and avoid having to relinquish areas. Under Brazilian regulations, if no oil is found in blocks under concessions by a certain deadline, operators have to return parts and then, eventually, the whole of the area to the government. By the end of 2010, Petrobras has to present the National Petroleum Agency (ANP) with a complete evaluation and production plan for all the pre-salt blocks it currently leases. Petrobras Exploration and Production Director Guilherme Estrella has publicly expressed concerns that the company is "running against time."

TUPI FIRST, THEN OTHER PRE-SALT AREAS

¶3. Petrobras has only made production evaluation tests at the Tupi subsalt field, where it made a recoverable reserve estimate last November of between 5-8 billion barrels. Two more wells will be drilled there and a long-term production test will start on Tupi in March 2009 to produce 10,000-20,000 barrels per day. Some geologists say that the Carioca subsalt field and three adjacent blocks may have probable reserves of over 30 billion barrels. This theory has yet to be confirmed. So far, Petrobras has been quiet saying only that it is a possibility that requires more studies.

¶4. Studies not directly related to exploration and production at Tupi appear to be temporarily on hold while Petrobras takes stock of the resources that it will need to explore the new subsalt frontier. The "Bem-te-vi" field (BMS-8 block), where Petrobras announced a light oil find earlier in May, will also have to wait for new equipment to get more information about the crude accumulation. The rig from there has been transferred to another subsalt area, known as Iara.

STRATEGIC PLAN FOR EQUIPMENT

¶5. With oil prices at record highs, oil exploration equipment is in short supply and becoming more expensive. Renting a deepwater drilling rig costs, on average, between \$400,000 and \$600,000 a day. So, Petrobras has recently launched its "Fleet Support and Support Vessel Modernization and Expansion Program," a strategic plan to contract the construction of 140 new units to support Petrobras' offshore activities at an estimated total of US\$5 billion. This is the largest vessel contracting plan of its sort ever in Brazil.

¶6. Specifically for the subsalt area, Petrobras plans to contract 40 drilling ships and platforms to operate in deep and ultra-deep waters by 2017. Though Petrobras says it prefers that the units be built in Brazil and has a target of 70-80 percent local content, it is questionable if the domestic market is ready to